

Statement of Hon. Robert T. Matsui  
Member of Congress  
Before the House Committee on Rules  
Subcommittee on Legislative and Budget Process  
Hearing On  
Assessing the Accuracy of Federal Budget Estimating  
May 9, 2002

Chairman Pryce, Ranking Member Slaughter, and members of the subcommittee, thank you for inviting me to testify on the concept of dynamic cost scoring for new policy proposals. As you noted in the hearing advisory, estimates of revenue and spending changes produced by the Congressional Budget Office (CBO) and other organizations have a substantial impact on whether we, as a deliberative body, adopt legislative proposals. You are therefore right to place our estimating conventions under great scrutiny.

The idea under consideration is to incorporate more macroeconomic effects of our policy proposals into evaluations of their costs. Although this hearing is focused on the role that the CBO would play in this process, I will also discuss the role of and the challenges faced by the Joint Committee on Taxation (JCT) in undertaking dynamic scoring of tax proposals, and I will hope to impart some of the knowledge I have learned as a member of the Ways and Means Committee on these interrelated issues. I think that the concept of incorporating macroeconomic effects into revenue and expenditure estimates is a good idea in theory – we would always like to have better information when we legislate – but one that is flawed in practice. Requiring dynamic scoring of policy proposals would be a grave mistake that would substantially dilute and diminish the value of such estimates as an important tool in our deliberative process.

My rationale against such an approach is based on four distinct factors. First, I understand there to be challenges in the analysis of proposals that render it difficult, if not impossible, to arrive at a credible consensus estimate for macroeconomic effects. Second, it is important to act conservatively in our budget policy given our current and worsening deficits. Third, serious questions and the potential for political bias arise regarding which proposals would be scored under the dynamic method and which under current procedures. Lastly, I think it would be a mistake to ask the CBO and other legislative organizations with strong bipartisan support to choose sides in debates that might erode nonpartisan faith in their estimates.

### **Challenges of Arriving at a Credible Macroeconomic Estimate**

Let me begin by briefly addressing the significant barriers to arriving at an assessment of a proposal's macroeconomic impact. Of course, CBO Director Dan Crippen speaks to these details with more technical expertise than I, and has concluded that "integrating dynamic scoring into cost estimates would pose intractable problems."<sup>1</sup> I cannot summarize this point any better.

I might also add that the JCT undertook a long investigation of this idea concluding with an important symposium in 1997. They, too, arrived at the viewpoint that it is not possible to

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<sup>1</sup> Congressional Budget Office, *Statement of Director Dan L. Crippen on Federal Budget Estimating*, Testimony before the U.S. House Committee on the Budget, May 2, 2002.

reliably estimate the effects of specific tax and budget changes on employment and economic growth.<sup>2</sup> The JCT's conclusion mirrored advice Federal Reserve Chairman Alan Greenspan had offered in a 1995 hearing: "Unfortunately, the analytical tools required to achieve [dynamic scoring] are deficient. In fact, the goal ultimately may be unreachable."<sup>3</sup>

The current chief of staff of the JCT, Lindy Paull, testified before the Ways and Means Oversight Subcommittee this week on the topic of dynamic scoring. Ms. Paull noted that even if some consensus could be reached about whether certain macroeconomic effects will occur in response to changes in policy, a key challenge would be that estimates for the magnitude of these effects would vary widely.

If the combined wisdom of Director Crippen, the JCT, and Chairman Greenspan have not convinced you, let me mention for the record just a few of the variables that would have a substantial impact on macroeconomic modeling:

- Predictability of the business cycle;
- Strength of behavior responses to policy changes – and their echoes;
- Federal Reserve decisions impacting monetary policy;
- International capital markets; and
- Variability in how econometric models forecast different behavior responses and transition effects.

And if you still do not believe that budget estimating remains fraught with uncertainties, you need look no further than the revisions CBO has made to its own budget projections during this Congress. In just one year, we saw surplus projections drop by four trillion dollars (which, as you know, means we are running big deficits after removing the Social Security and Medicare HI trust funds). More than one third of that change was caused simply by revisions in economic projections. If estimates produced for us by CBO can shift so quickly and so greatly under current process, their accuracy would be further diminished under a full-blown dynamic scoring system given the additional uncertainty that would create. As Representative Slaughter noted in her opening statement last week, we have been down this kind of road before and ought to know better.

### **Need for Caution Given our Perilous Fiscal Situation**

Budget decisions involving tens of billions of dollars are too important to leave to dynamic scoring techniques that are fraught with such uncertainties. Chairman Greenspan himself has cautioned against "adopting technical scoring procedures that might be susceptible to overly optimistic assessments of the budgetary consequences of fiscal actions." He elaborated that should the markets lose confidence in the integrity of our budget scoring procedures, "the rise in inflation premiums and interest rates could more than offset any statistical difference between so-called static and more dynamic scoring." It seems to me inappropriate to accept as fact

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<sup>2</sup> Joint Committee on Taxation, *Joint Committee on Taxation Tax Modeling Project and 1997 Tax Symposium Papers* (JCS-21-97), November 20, 1997.

<sup>3</sup> Alan Greenspan, *Testimony Before the Joint Hearing of the House of Representatives Committee on the Budget and the Senate Committee on the Budget Regarding Congressional Budget Cost Estimating*, Serial no. 104-1, pp. 130-149, 1995.

controversial estimates that might motivate Congress to spend money that we do not have. I fear that under the seduction of dynamic scoring, legislators may be tempted to fall into ever-higher deficit spending based on unrealistic assumptions. Given the benefits of fiscal austerity that we demonstrated in the 1990s, it is extremely important to resist any kind of evaluation methodology that might lead us further away from the balanced budgets we briefly achieved.

### **Equity Between Dynamic Scoring of Revenue and Spending Proposals**

Third, if we are using dynamic scoring for revenue proposals, we must also use dynamic scoring for spending proposals in the interest of consistency of overall budget analysis. For example, assistance for school modernization and efforts to reduce drug addiction would likely have beneficial effects on the economy. Conversely, some program reductions would have adverse effects on the nation's infrastructure and worker productivity.

This raises the question of where, if anywhere, we draw the line in establishing which proposals receive dynamic scoring treatment. Council of Economic Advisers Chairman R. Glenn Hubbard has suggested in his testimony that we only use dynamic scoring for certain proposals. I am concerned with the prospect that we would only use dynamic scoring for major tax cuts, which I think would clearly be irresponsible.

### **Eroding CBO's Non-Partisan Credibility**

Of course, just because macroeconomic analysis is complicated does not mean we should neglect to consider it in our public policy-making — an argument Chairman Hubbard has sensibly raised in his testimony. But the complexity of the macroeconomic analysis and the multiple uncertainties involved mean that experts will have a range of views. Inevitably, my congressional colleagues will support different conclusions about the macroeconomic effects of a particular proposal.

And this brings me to my last point: that we should not ask the CBO — an organization with a well-deserved reputation for nonpartisanship — to referee between the competing visions for national policy that we, as Members of Congress, were elected to evaluate and decide upon.

In his testimony to the subcommittee last week, Peter R. Orzag of the Brookings Institution articulated this concern clearly:

CBO and JCT have established substantial credibility as scoring agencies, and that credibility is essential to the functioning of the budget process. It would be endangered if the agencies were regularly forced to reach definitive conclusions regarding extremely controversial debates in the academic literature.<sup>4</sup>

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<sup>4</sup> Peter R. Orzag, *Macroeconomic Implications of Federal Budget Proposals and the Scoring Process*, Testimony before the U.S. House Rules Committee Subcommittee on Legislative and Budget Process, Mar 2, 2002.

Ken Kies, then-chief of staff for the JCT, made the same point in 1995 testimony: attempting to quantify macroeconomic impacts would undermine the credibility of the estimating process and make the scores less reliable.<sup>5</sup>

In short, the value of estimates from the CBO and its sibling organizations produce the greatest part of the relatively small universe of policy analysis upon which most Members of Congress can agree. It would be extremely unfortunate — and highly detrimental — to dilute CBO’s institutional credibility by forcing it to take very subjective stances on highly controversial issues.

As colleagues, we may responsibly disagree about the macroeconomic impacts of the latest tax or spending proposal. But let us keep the CBO out of it so that they can continue to serve us with high-quality nonpartisan advice.

### **Final Thoughts**

Given the strong conclusions of the JCT symposium in 1997 and the consistent views of the CBO, it is surprising that the idea is being seriously advanced again so soon. After all, the conclusion then was that dynamic scoring was not yet ready for “prime time” and may never be. Perhaps those proposing further tax cuts cannot resist the prospect of continuing to cut taxes without having to fully pay for them with spending cuts. Nevertheless, it is a bad idea to adopt an evaluation methodology that clouds our vision instead of clearing it.

Let me just say this: we can all agree that predicting the effects of tax or spending changes is complicated — and the debate on their value belongs in the House floor, not in the Ford Building offices of the CBO. Second, we all sing the praises of the CBO and should think long and hard before taking any action that might erode its utility. Finally, we should consider our obligation to the taxpayers and our own needs for operational efficiency before imposing additional burdens on our institutional support. There are plenty of organizations willing to give us free macroeconomic advice on policy. I do not see any shortage of such opinions being circulated at present.

I hope the subcommittee will join me in recognizing that dynamic scoring is an idea whose time has not come, and may never do so.

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<sup>5</sup> Joint Committee on Taxation, *Written Testimony of the Staff of the Joint Committee on Taxation Regarding the Revenue Estimating Process* (JCX-1-95), January 9, 1995.